

# dealer and contractor guide to property improvement loans

## DEALER AND CONTRACTOR PARTICIPATION

Under the Federal Housing Administration's credit insurance program, lending institutions and their approved dealers and contractors may assist owners of existing structures to maintain their properties by making timely repairs, or desired alterations, additions, or renovations. Provision is made also for insurance of loans for the purpose of building small new structures designed for nonresidential use.

Eligible loans are made by insured lending institutions directly to borrowers and also are available to borrowers through dealers and contractors participating in the program. Whether the loans are made directly or are originated by dealers and contractors, the insured lender investigates and approves the borrowers' credit, and performs all the usual services incidental to the financing of installment loans.

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U. S. Department of Housing and Urban Development  
Washington, D. C. 20410

## **SELLING PROCEDURE**

In selling any job to be financed under the FHA property improvement program, the dealer or contractor should:

- Discuss with the customer the job to be done and give him an estimate of the total cost involved. Quote reasonable prices for materials to be used and work to be done.

- Tell the customer the truth about the product and what it will do. Avoid extravagant claims or misrepresentations of its merits.

- When the customer agrees to the proposed sale, compute the cost of the job and prepare a written contract covering all details of the work agreed upon. This contract or sales agreement must be signed by both the customer and the dealer or contractor, and a copy must be given to the customer at the time of signing the contract.

- Be sure that the customer understands exactly what work is to be done under the terms of the written contract, and what the cost of the job will be. Sell only as much as the customer can afford to buy.

- Complete thoroughly and competently all the work agreed upon. Be prepared to give all jobs reasonable servicing.

- Tell the customer the name of the lending institution to which his note will be sold, the cost of financing, and the amount of the monthly payment.

- Be sure that the customer has a full understanding of the transaction and his obligation under the terms of the note. Explain fully the meaning of the papers he is required to sign.

- Instruct all salesmen properly, and supervise their activities carefully. FHA holds the dealer or contractor responsible for the acts of his salesmen. Check thoroughly the background and reputation of new salesmen before hiring them.

- Be sure that he has complied with all requirements of the Federal Truth in Lending Act and regulations and other State and local consumer protection laws. The FHA and HUD have no official role in administering the provisions of the Federal Truth in Lending Act.

## **WARNING**

The FHA property improvement program may not be made the instrument of practices which deprive property owners of the benefits and protection to which they are entitled under the National Housing Act.

Should a dealer, contractor, or salesman abuse the program, the Federal Housing Administration will take necessary action to eliminate such abuses and the resultant increase of insurance risk to the FHA by making the offender subject to precautionary measures or by placing his name on its list of ineligible persons. The latter action would bar the offender from further participation in any of the housing programs.

## **TYPES OF IMPROVEMENTS**

### **Existing Structures**

The National Housing Act authorizes insurance of loans made to finance alterations, repairs, and improvements upon or in connection with existing structures. Only items which substantially protect or improve the basic livability or utility of the property are eligible.

The law requires that a house be completed and occupied before a loan is made. If the net amount of the loan exceeds \$600, the house must have been completed and occupied as a residence for at least 90 days.

A nonresidential structure must be a completed building that had a distinctive functional use before application was made for the loan.

Repairs, alterations, or improvements must be performed upon or physically attached to or connected with the structure, or directly related and incidental to the protection or improvement of its livability or utility.

### **Examples of eligible improvements are:**

- Additions and alterations to increase the livability or usefulness of existing structures, such as rooms, porches, stairways, closets, bathrooms, and entrances.

- Exterior work to help preserve or protect structures, such as painting, roofing, and siding.

- Interior work to make a structure more livable, such as painting, papering, plastering, new flooring, and tile work.

- Repairs, restoration, or replacement of important parts of structures, such as heating systems, plumbing systems, septic tanks, electrical wiring, structural repairs, and built-in kitchen appliances in residential structures of the owners.

- Commercial structures such as stores, office buildings, warehouses, and factories, or agricultural buildings such as barns, granaries, and other service buildings may likewise be improved with FHA property improvement loans, provided the improvements substantially protect or improve the basic utility of the structure.

### **New Structures**

With certain exceptions, loans made for the construction of small structures for commercial, industrial, or agricultural use are eligible.

## CLASSES OF LOANS

The following chart is provided so that the maximum amount, maturity, and financing charge of an eligible loan may be readily determined:

Type of Loan	Type of Improvement	Maximum Maturity
Class 1 (a)	Repairs, alterations, or improvements that substantially protect or improve the basic livability or utility of existing structures.	7 years
Class 1 (b)	Alteration, repair, improvement, or conversion of existing structure used or to be used as dwelling for two or more families.	7 years
Class 2 (a)	Construction of a new structure to be used exclusively for other than residential or agricultural purposes.	7 years
Class 2 (b)	Construction of a new nonresidential structure to be used in whole or in part for agricultural purposes.	7 years

Priority	Maximum Amount	Maximum Financing Charge
	\$5,000	Annual percentage rate varies from 8.83% to 10.57% depending upon the amount and term of loan.
	\$2,500 per dwelling unit, not to exceed \$15,000.	Same
	5,000	Same
	5,000	Same

**Step One**—Discuss the proposed job with the customer. Describe in detail the work to be done. Compute the total cost of the job. Then, using the gross charge table, tell the customer the term of the note, the amount of the financing charge, and the amount of the monthly payments necessary to pay off the loan. If the work is agreed upon, prepare a detailed written contract or sales agreement in at least three copies—one for yourself, one for the customer, and one for the lending institution. This contract or sales agreement must be properly dated, and signed by both the customer and the dealer or contractor. Be sure that the wording of the contract specifies (1) the type of improvements, (2) the extent of the improvements, and (3) a description of the materials to be used.

**Step Two**—Have the customer fill out and sign a credit application, carefully, completely, and accurately.

**Step Three**—Deliver the completed credit application and a copy of the contract to the lending institution. If your customer's credit is acceptable, the lending institution will notify both you and the customer.

**Step Four**—After receiving notice of the acceptability of the customer's credit, do the job called for in the contract in a workmanlike manner. When the work is completed according to the agreement and to the customer's satisfaction, see that the completion certificate is properly dated, properly filled in, and properly signed by both the customer and the dealer or contractor. Remember:

- The completion certificate must be dated the day it is signed by the borrowers.

- Borrowers must sign it only AFTER work has been completed.

- The dealer, contractor, or his authorized agent must sign the certificate.

- The certificate warrants that the dealer-contractor will repurchase the note if any representations made on the dealer-contractor portion of the form prove incorrect.

**Step Five**—The lending institution pays the dealer or contractor the net proceeds of the loan, provided at least six days have elapsed since the customer was notified of the acceptability of his application.

The program described in this bulletin is provided under Title I, Section 2, of the National Housing Act, and administered by the Federal Housing Administration, U. S. Department of Housing and Urban Development.

**EQUAL OPPORTUNITY IN HOUSING:** Racial discrimination in housing of any size is a violation of the Civil Rights Act of 1866. In addition, the Civil Rights Act of 1968 contains a Federal Fair Housing Law (Title VIII) which established fair housing as the policy of the United States. This law prohibits discrimination on the basis of race, color, religion, and national origin.

Persons complaining of discrimination in housing have a choice of remedies including filing a civil action in Federal court (or in some cases State courts), or complaining to HUD.

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### **ELIGIBLE APPLICANTS**

To be eligible as a borrower under the FHA property improvement program, the customer must own the property to be improved. If he is not a holder of the title in fee, he must have an equitable interest in the property under an instrument of trust or purchase contract, or a lease having a fixed term expiring not less than six calendar months after the maturity of the loan.

The customer must have a steady or determinable income adequate to permit repayment of the loan. He must have a reputation for honesty and integrity in discharging his obligations, and he must qualify otherwise as an acceptable credit risk.

### **PAYMENT OF LOAN**

The borrower repays his loan to the lending institution in installments. For most loans the installments come due each month. (For certain farm loans seasonal payments can be arranged.) The lending institution can supply FHA "Gross Charge Tables" which give the exact monthly payments for loans in various amounts and for various durations. This form simplifies calculations and enables the dealer or contractor to quote the exact monthly payments necessary to repay the loan to customers.

### **DEALER AND CONTRACTOR OPERATIONS**

The dealer or contractor is charged with responsibility for the proper handling of the loans he originates. The following step-by-step outline of the ways to make a dealer- or contractor-originated FHA property improvement loan should be studied closely by all dealers, contractors, and their salesmen. The simplest way to avoid mistakes, confusion, and unnecessary delays is to follow proper procedure in the origination of all loans.

This outline is based on a typical case and covers what the dealer and contractor should know about basic procedure. However, other methods do not violate governing regulations. Therefore, it cannot be emphasized too much that the first thing for a dealer or contractor to do is to have a complete understanding with his lending institution on the details of the loan procedure. The lending institution will furnish a supply of the forms the dealer and contractor will need. The forms are:

- the credit application
- the note
- the completion certificate
- the gross charge and discount tables